

AMENDED IN SENATE MARCH 26, 1998

SENATE BILL

No. 1782

**Introduced by ~~Senator Thompson~~ Senators Thompson,
Peace, and Rosenthal**

(Coauthor: Assembly ~~Member—Leonard~~ Members Alquist,
Baugh, Bowen, Brown, Campbell, Cardenas, Firestone,
Keeley, Knox, Kuehl, Leonard, Machado, Mazzoni, Ortiz,
Scott, Strom-Martin, and Thomson)

February 18, 1998

An act to add and repeal Sections 6356.5 and 10754 of the Revenue and Taxation Code, relating to taxation, to take effect immediately, tax levy.

LEGISLATIVE COUNSEL'S DIGEST

SB 1782, as amended, M. Thompson. Taxation: sales and use taxes: vehicle license fees: low emission vehicles.

The Sales and Use Tax Law imposes a tax on the gross receipts from the sale in this state of, or the storage, use, or other consumption in this state of, tangible personal property. That law provides various exemptions from that tax.

This bill would, until January 1, 2003, additionally exempt from state sales and use taxes the incremental costs, as defined, that are incurred with respect to a new light-duty motor vehicle propelled by an alternative fuel *or an electric motorbike* that is certified by the State Air Resources Board as producing emissions that meet, or are lower than, the emission standards and other specifications for ultra-low emission vehicles, as defined by the board.

The Vehicle License Fee Law provides that the annual amount of the license fee for any vehicle is 2% of the market value of the vehicle, as specified. It provides for the determination of the market value of any vehicle, for reclassification to increase the market value of a vehicle, and for the exemption of certain vehicles from the imposition of the license fee.

This bill would, until January 1, 2003, for purposes of determining the vehicle license fee, exempt from the determination of market value, the incremental costs, as defined, that are incurred with respect to a new light-duty motor vehicle propelled by an alternative fuel that is certified by the State Air Resources Board as producing emissions that meet, or are lower than, the emission standards and other specifications for ultra-low emission vehicles, as defined by the board.

Counties and cities are authorized to impose local sales and use taxes in conformity with state sales and use taxes. Exemptions from state sales and use taxes enacted by the Legislature are incorporated into the local taxes.

Section 2230 of the Revenue and Taxation Code provides that the state will reimburse counties and cities for revenue losses caused by the enactment of sales and use tax exemptions.

This bill would provide that, notwithstanding Section 2230 of the Revenue and Taxation Code, no appropriation is made and the state shall not reimburse local agencies for sales and use tax revenues lost by them pursuant to this bill.

This bill would make certain legislative findings and declarations regarding vehicle emissions.

This bill would take effect immediately as a tax levy, but its provisions would become operative as specified.

Vote: majority. Appropriation: no. Fiscal committee: yes. State-mandated local program: yes.

The people of the State of California do enact as follows:

- 1 SECTION 1. The Legislature finds and declares:
- 2 (a) There is a wide disparity on some state and local
- 3 taxes and fees levied on owners of vehicles operated on



1 alternative fuels when compared to those same taxes and
2 fees levied on owners of comparable conventional fuel
3 vehicles.

4 (b) In some cases, the taxes and fees on alternative fuel
5 vehicles are more than twice as much as those for
6 conventional fuel vehicles.

7 (c) The disparity in taxes and fees exists even though
8 the alternative fuel vehicle may look identical to the
9 conventional fuel vehicle and provide the same or lesser
10 utility to the individual owner.

11 (d) The existing California vehicle license fee and
12 state and local sales and use taxes on the sale or lease of
13 motor vehicles that operate on alternative fuels are
14 higher than for comparable conventional fuel vehicles
15 because alternative fuel vehicles generally have higher
16 sales prices. The higher sales prices are largely due to the
17 fact that these vehicles are produced in extremely low
18 volumes (many assembled by hand), such that their
19 production has not achieved the economies of scale that
20 would significantly reduce their cost; and they use many
21 new advanced materials and technologies that also have
22 not yet achieved economies of scale, and therefore have
23 a temporarily greater cost to consumers.

24 (e) The higher sales prices for these alternative fuel
25 vehicles are expected to be a short-term, temporary
26 situation because prices are expected to decline
27 significantly to competitive levels as volume increases. If
28 this does not occur, these vehicles may never be
29 competitive, and automakers would likely withdraw
30 them from the market. The current vehicle license fee
31 mechanism, and sales and use tax system, do not reflect
32 these temporary, short-term pricing situations. Instead
33 they intrinsically, but incorrectly, assume that these
34 short-term higher prices reflect true long-term market
35 value of the vehicles.

36 (f) Alternative fuel vehicles provide benefits to
37 California citizens that are external to, or not reflected in,
38 their cost to the purchaser. These benefits include:
39 increasing our national independence from foreign
40 energy sources; providing more transportation choices

1 for consumers and businesses, thus reducing our
2 economic vulnerability to sudden fuel price increases
3 caused by external or internal events; reducing air
4 pollution from mobile sources; reducing future pressures
5 for additional environmental controls on existing and
6 new businesses and industries in California; and creating
7 new advanced transportation technology jobs and
8 industries in California.

9 (g) It is the public policy of the State of California, the
10 federal government, and many local governments, to
11 encourage the development and use of alternative fuel
12 vehicles, for the purpose of providing the benefits
13 described above to all California citizens.

14 (h) Existing vehicle license fee structures, and the
15 existing sales and use tax system, as they relate to the
16 determination of market value of alternative-fuel
17 vehicles do not reflect the critical short-term pricing
18 issues described above, nor the external benefits that
19 accrue to all California citizens. Additionally, these
20 existing fees and taxes act as a significant disincentive to
21 potential purchasers of alternative fuel vehicles, and as
22 such, are contrary to existing public policies at all levels
23 of government.

24 ~~(i) These higher fees and taxes on alternative fuel~~
25 ~~vehicles also create an unexpected tax revenue~~
26 ~~“windfall” to local and state governments. In the absence~~
27 ~~of alternative fueled vehicles, these government entities~~
28 ~~would receive only the level of revenues from~~
29 ~~comparable conventional fueled vehicles. These~~
30 ~~government entities should not benefit from such a~~
31 ~~windfall for the same reasons that potential purchasers of~~
32 ~~alternative fuel vehicles should not have to pay these~~
33 ~~unfair fees and taxes.~~

34 ~~(j)~~

35 (i) It is the intent of the Legislature to equalize the
36 vehicle license fee, and state and local sales and use taxes,
37 between alternative fuel vehicles and conventional fuel
38 vehicles for a period of four years, beginning January 1,
39 1999, and ending December 31, 2002. During this time
40 period it is the intent of the Legislature that the

1 incremental or differential cost between an alternative
2 fuel vehicle and a comparable conventional fuel vehicle,
3 as determined by the State Energy Resources
4 Conservation and Development Commission, should be
5 exempt from both the vehicle license fee, and state and
6 local sales and use taxes.

7 ~~(k)~~

8 (j) To ensure that the alternative fuel vehicles subject
9 to these provisions provide significant reduction in air
10 pollution, eligible vehicles must meet, at a minimum, the
11 standard for ultra-low emission vehicles as determined by
12 the State Air Resources Board.

13 SEC. 2. Section 6356.5 is added to the Revenue and
14 Taxation Code, to read:

15 6356.5. (a) There are exempted from the taxes
16 imposed by this part, the incremental costs of the sale or
17 lease in this state of, and the storage, use, or other
18 consumption in this state of, new light-duty motor
19 vehicles propelled by alternative fuels, ~~and~~ and electric
20 motorbikes, that are certified by the State Air Resources
21 Board as producing emissions that meet the emission
22 standard for ultra-low emission vehicles or lower as
23 defined by the board.

24 (b) For purposes of this section, "incremental cost"
25 means the amount determined by the State Energy
26 Resources Conservation and Development Commission
27 as the reasonable difference between the cost of the
28 motor vehicle defined in subdivision (a) and the cost of
29 a comparable gasoline or diesel fuel vehicle. This
30 determination shall constitute the maximum incremental
31 cost for purposes of the exemption in subdivision (a), and
32 may be reduced by the actual sales price of the vehicle.
33 The actual incremental cost shall be stated in the contract
34 for sale or lease with the purchaser, and shall be reported
35 to the commission quarterly.

36 (c) This section shall become operative on January 1,
37 1999, and shall remain in effect only until January 1, 2003,
38 and as of that date is repealed.

39 SEC. 3. Section 10754 is added to the Revenue and
40 Taxation Code, to read:

1 10754. (a) For purposes of determining the vehicle
2 license fee imposed by this part, there are exempted from
3 the determination of market value, the incremental costs
4 of new light-duty motor vehicles propelled by alternative
5 fuels, and certified by the State Air Resources Board as
6 producing emissions that meet the emission standard for
7 ultra-low emission vehicles or lower as defined by the
8 board. This exemption shall apply to the subsequent
9 payments of the vehicle license fee.

10 (b) For purposes of this section, “incremental cost”
11 means the amount determined by the State Energy
12 Resources Conservation and Development Commission
13 as the reasonable difference between the cost of the
14 motor vehicle defined in subdivision (a) and the cost of
15 a comparable gasoline or diesel fuel vehicle. This
16 determination shall constitute the maximum incremental
17 cost for purposes of the exemption in subdivision (a), and
18 may be reduced by the actual sales price of the vehicle.
19 The actual incremental cost shall be stated in the contract
20 for sale or lease with the purchaser, and shall be reported
21 to the commission quarterly.

22 (c) This section shall become operative on January 1,
23 1999, and shall remain in effect only until January 1, 2003,
24 and as of that date is repealed.

25 SEC. 4. Notwithstanding Section 2230 of the Revenue
26 and Taxation Code, no appropriation is made by this act
27 and the state shall not reimburse any local agency for any
28 sales and use tax revenues lost by it under this act.

29 SEC. 5. This act provides for a tax levy within the
30 meaning of Article IV of the Constitution and shall go into
31 immediate effect.